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The Week Ahead

Active is: Keeping an eye on capital markets

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"An Indian summer?"

While the leaves are starting to turn brown and temperatures are dropping in the northern hemisphere, the financial markets remain so far unimpressed. During the first nine months of 2019, the markets underwent a broad-based recovery, fuelled to a substantial degree by the globally witnessed shift in central bank policy towards renewed lower interest rates and injections of money, and less by the continuing feeble momentum in global economic and earnings growth in an ageing upswing.

In the medium term, however, high expectations facing central bankers and finance ministers, particularly the Chinese and German ones, will not be sufficient to ensure a persisting Indian summer on the stock markets. At least not unless the global economy finds its feet again. Or as long as political uncertainties don't loosen their grip on the markets.

Speaking of which, since the US Federal Reserve (Fed) lowered its base rate at the end of July for the first time in eleven years, trends among the various asset classes have, interestingly enough, been noticeably less uniform. Since mid-year, the shift between risk appetite and risk aversion ("risk on/risk off") among market players has again become visible. Depending on the risk mood prevailing in the short term, either risky asset classes (such as equities and high yield bonds) or asset classes viewed as "safe havens" (such as government bonds) have witnessed positive performance – but not both at the same time.

It would seem that expectations of more expansive economic policy were no longer sufficient to "float all boats". Instead, other driving forces have regained importance. Such as the flow of macroeconomic news and (geo-)political risks.

1. Although the **global economy** is not in free fall, the worry lines are increasing. For example, our cyclical recession model for the US – the world's largest economy – is currently indicating a likelihood of

Publications

"Capital Markets Monthly"

While the leaves are starting to turn brown and temperatures are dropping in the northern hemisphere, the financial markets remain so far unimpressed. During the first nine months of 2019, they underwent a broad-based recovery. However, high expectations facing central bankers and finance ministers will not be sufficient to ensure a persisting Indian summer. Read more in our latest Capital Markets Monthly.

"Energy transition and sustainable resourcing"

Climate change is shifting investor priorities and driving wider adoption of sustainable business models, which seek to "meet the needs of the present without compromising the ability of future generations to meet their own needs".

"Active is: Combating wealth erosion"

It's been a long time since my savings account passbook had any significance to me, but at least it's a useful place for stashing the kids' pocket money, even if it hasn't paid any interest for a long time.

recession of just 2% over the next six months. Having said that, however, the ongoing trade weakness and geopolitical uncertainties continue to weigh heavily on the global manufacturing sector. Investors are closely watching to see whether any signs of knock-on effects are noticeable in the services sector, which is more domestically oriented and has proven to be resilient thus far. In addition, the most recent rise in the price of oil could turn out to be a burden for what has so far been robust consumption thanks to the good health of the labour markets and rising wages. The risk of an economic downswing has heightened.

2. For the time being, the path seems to have been cleared of several **political stumbling blocks**: Italy's new government is adopting a less confrontational course with Brussels on the issue of fiscal policy. The UK parliament has reduced the likelihood of a no-deal Brexit. And there are muted positive signals emerging from US-Chinese trade talks. And yet, regardless of any ceasefire, the average import duties imposed by the US – which reached 4.7% in September, their highest level in 45 years – have long since started to weigh on the domestic and global economies. If the Trump administration does indeed impose the additional import duties on Chinese goods that have already been announced, the average tariff would likely increase further to 6.2% by the end of this year. Added to which, a potential increase in US import duties on the automotive industry is still lurking in the background (decision expected in November). In Europe, Germany, Italy and the UK would be particularly hard hit as a result.

What does this mean for investment decisions?

- Taken on their own, hopes of more expansive monetary and fiscal policy support risky asset classes. However, it is doubtful whether this will be enough to produce a sustained lift on the stock markets. So far, the economy and corporate earnings have failed to recover.
- As a result, a broadly diversified portfolio would seem advisable, on the one hand, and on the other a tactically cautious attitude towards risky assets with active security selection in a multi-asset context.
- In a global equity portfolio, for example, we currently favour the US equity market – which has historically displayed to be less prone to fluctuation – and defensive sectors.

Regardless of whether we are going to have an Indian summer or not – active management seems to be flourishing, believes

Ann-Katrin Petersen

Upcoming Political Events 2019

Oct 06: Portugal General elections

Oct 18: Annual meetings of the World Bank and the IMF

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

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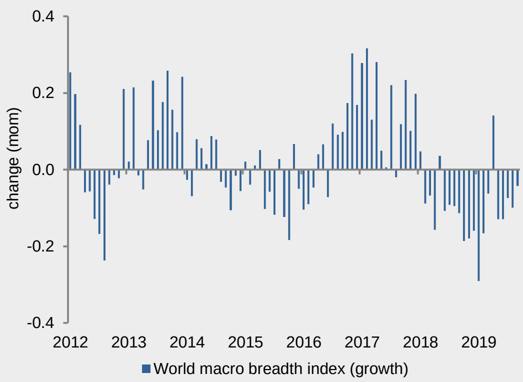
Chart of the Week

Steady (but orderly) global economic slowdown continued in September: Global macro data has deteriorated in 18 of the last 20 months



Note: The World Macro Breadth Indices track the direction of 353 global, regional and country macro data (271 growth and 82 inflation indicators) on a monthly basis. The monthly change of the index is scaled from -1 to 1, with a value of 1 (-1) implying an increase (decrease) of all underlying data. Sources: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream. Data as of 2 October 2019.

Calendar Week 41:

Monday			Consensus	Previous
CH	Foreign Reserves	Sep	--	$3107.18b
EC	Sentix Investor Confidence	Oct	--	-11,1
GE	Factory Orders YoY	Aug	--	-5,60%
JN	Leading Index	Aug P	--	93,7
JN	Coincident Index	Aug P	--	99,7
US	Consumer Credit	Aug	$16.00b	$23.294b
Tuesday				
CH	Caixin Composite PMI	Sep	--	51,6
CH	Caixin Services PMI	Sep	52	52,1
FR	Trade Balance	Aug	--	-4607m
FR	Current Account Balance	Aug	--	0.2b
GE	Industrial Production YoY	Aug	--	-4,2%
IT	Retail Sales YoY	Aug	--	2,6%
JN	Labor Cash Earnings YoY	Aug	--	-0,3%
JN	BoP Current Account Balance	Aug	--	¥1999.9b
JN	Trade Balance BoP Basis	Aug	--	-¥74.5b
UK	Unit Labor Costs YoY	2Q	--	2,1%
US	PPI YoY	Sep	--	1,8%
US	PPI Core YoY	Sep	--	2,3%
Wednesday				
FR	Bank of France Business Sentiment	Sep	--	99
JN	Machine Tool Orders YoY	Sep P	--	-37,0%
US	FOMC Meeting Minutes	Sep 18	--	--
Thursday				
FR	Industrial Production YoY	Aug	--	-0,2%
FR	Manufacturing Production YoY	Aug	--	-0,3%
GE	Trade Balance	Aug	--	21.4b
GE	Current Account Balance	Aug	--	22.1b
GE	Exports SA MoM	Aug	--	0,7%
GE	Imports SA MoM	Aug	--	-1,5%
IT	Industrial Production YoY	Aug	--	-0,7%
JN	PPI YoY	Sep	--	-0,9%
JN	Core Machine Orders YoY	Aug	--	0,3%
UK	Industrial Production YoY	Aug	--	-0,9%
UK	Manufacturing Production YoY	Aug	--	-0,6%
UK	Construction Output YoY	Aug	--	0,3%
UK	Trade Balance GBP/Mn	Aug	--	-£219m
US	Real Avg Weekly Earnings YoY	Sep	--	1,2%
US	CPI YoY	Sep	--	1,7%
US	CPI Ex Food and Energy YoY	Sep	--	2,4%
US	Initial Jobless Claims	Oct 5	--	--
US	Continuing Claims	Sep 28	--	--
Friday				
JN	Money Stock M2 YoY	Sep	--	2,4%
JN	Money Stock M3 YoY	Sep	--	2,0%
US	Import Price Index YoY	Sep	--	-2,0%
US	Export Price Index YoY	Sep	--	-1,4%
US	U. of Mich. Sentiment	Oct P	--	93,2
US	U. of Mich. 1 Yr Inflation	Oct P	--	2,8%